

Message Text

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ACTION EB-11

INFO OCT-01 AF-10 ADP-00 SCEM-02 INT-08 OEP-01 CIAE-00

INR-09 NSAE-00 RSC-01 OMB-01 COME-00 SS-14 NSC-10

TRSE-00 L-03 FPC-01 PA-03 USIA-12 PRS-01 EUR-25 RSR-01

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R 191615 Z MAR 73

FM AMEMBASSY LAGOS

TO SECSTATE WASHDC 8794

C O N F I D E N T I A L LAGOS 2217

E. O. 11652: GDS

TAGS: ENRG, NI

SUBJECT: LIQUIFIED NATURAL GAS PROJECT AND SECOND REFINERY

REF: LAGOS 9866 OF DECEMBER 22, 1972

1. BEGIN SUMMARY: FEDERAL EXECUTIVE COUNCIL WILL CONSIDER LNG PROPOSALS AGAIN THIS WEEK. SHELL- BP STILL RETAINS KEY SUPPORT BUT AT LEAST ONE AMERICAN PROPOSAL AND POSSIBLY SEVERAL OTHERS ARE STILL IN CONTENTION. SECOND OIL REFINERY WILL BE LOCATED IN AN AS YET UNDETERMINED COASTAL SITE IN SOUTH. END SUMMARY.

2. A NIGERIAN CIVIL SERVANT WELL ACQUAINTED WITH OIL AND GAS POLICY AND DEVELOPMENTS IN NIGERIA TOLD EMBASSY OFFICER THAT LNG PROPOSAL WILL AGAIN APPEAR ON FEDERAL EXECUTIVE COUNCIL AGENDA THIS WEEK. REVISED PROPOSAL REPORTEDLY DIFFERS ONLY SLIGHTLY FROM VERSION LAUNCHED IN DECEMBER BY MINISTRY OF MINES AND POWER AND REPORTED IN LAGOS 9866. ASIODU STILL PROPOSES TO SELECT TWO OF 13 PROPOSALS FOR INTENSIVE NEGOTIATIONS WITH A VIEW TO CHOOSING ONE OF THESE TWO FOR FIRST BILLION CUBIC FEET PER DAY PROJECT IN NIGERIA. SHELL- BP AND TENNECO REMAIN THE CHOSEN TWO. SHELL- BP IS SELECTED BECAUSE OF EXPERIENCE, CAPACITY AND EFFORT EXPENDED IN PROJECT

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DEVELOPMENT. TENNECO SELECTED BECAUSE IT IS WORLD'S LARGEST TRANSPORTER OF NATURAL GAS AND IS BELIEVED TO BE IN BEST POSITION TO OBTAIN FPC APPROVAL FOR SALE OF PRODUCT IN U. S.

3. SOME NIGERIAN AGENCIES CONSIDERING THIS PROPOSAL ARE ARGUING THAT A THIRD CONTENDER-- PHILLIPS/ AGIP-- SHOULD BE ADDED TO SHELL- BP AND TENNECO, AND SUCH AN ADDITION MAY BE CONSIDERED BY COUNCIL. PHILLIPS TECHNOLOGY AND EXPERIENCE WITH LNG HAS APPARENTLY MADE A STRONG IMPRESSION IN OIL AND GAS CIRCLES HERE AND MANY NIGERIAN OFFICIALS BELIEVE THAT THE PHILLIPS/ AGIP OFFER IS BEST ONE. MAIN ARGUMENT AGAINST PHILLIPS/ AGIP PROPOSAL IS THAT IT WOULD DRAW LARGELY ON RESERVOIR GAS RATHER THAN ASSOCIATED GAS WHICH IS NOW BEING FLARED. THEREFORE, MANY NIGERIAN EXPERTS BELIEVE THAT THE PHILLIPS PROPOSAL SHOULD BE RESERVED FOR THE SECOND NIGERIAN PROJECT, WHICH NIGERIANS HOPE WILL FOLLOW QUICKLY ON THE HEELS OF FIRST ONE. MANY NIGERIAN OFFICIALS BELIEVE ITS ESSENTIAL THAT FIRST PROJECT DRAW MAINLY ON FLARED GAS IN ORDER TO SHOW PROGRESS IN PUTTING A STOP TO WASTE OF THIS VALUABLE NATIONAL ASSET.

4. THIS SOURCE SAYS THAT ANOTHER POINT OF CONTENTION IS METHOD OF DEALING WITH WHATEVER GROUPS ARE SELECTED FOR NEGOTIATION. ASIODU'S LATEST PLOY IN HIS EFFORTS TO ADVANCE THE SHELL- BP PROJECT WHICH HE HAS LONG FAVORED IS TO PROPOSE THAT NEGOTIATIONS START WITH THIS COMPANY AND BE ABANDONED ONLY IF FMG IS UNABLE TO ACHIEVE TERMS THAT IT WANTS. IF IT WERE SUCCESSFUL, THEN SHELL- BP WOULD BE SELECTED WITHOUT ANY INTENSIVE NEGOTIATION WITH ANY OTHER GROUP, EVEN THOSE ON INITIAL LIST OF SELECTIONS. OBVIOUS GIMMICK IN THIS PROPOSAL IS THAT FMG HAS NO EXPLICIT OBJECTIVES, SO NO ONE BUT ASIODU WOULD REALLY KNOW WHETHER OBJECTIVE WAS BEING ATTAINED OR NOT. EMBASSY OFFICER POINTED OUT THAT BUYERS OF GAS WOULD CERTAINLY BE MORE IMPRESSED BY A BIDDING PROCEDURE THAT CLEARLY RESULTED IN SELECTION OF LOW-EST COST, RELIABLE PRODUCER. FOR EXAMPLE, IN UNITED STATES IT IS AN OBLIGATION INTER ALIA OF FPC TO INSURE THAT GAS FOR AMERICAN CONSUMERS IS OBTAINED ON BEST POSSIBLE TERMS. COMMENT: OBVIOUSLY, MORE OPEN BIDDING

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PROCEDURE WOULD RESULT IN THIS INSTANCE IN ALLOWING

U. S. COMPANIES TO GET A BETTER CRACK AT THIS BUSINESS.
IF ASIODU' S PROPOSAL FOR " NEGOTIATION IN SERIES" WERE
ACCEPTED, THEN IT SEEMS QUITE CLEAR THAT PROJECT WOULD
BE DIRECTED FORTHRIGHTLY TO HIS FAVORITE, SHELL- BP.

5. ANOTHER HIGHER LEVEL NIGERIAN OFFICIAL, WHO MAY
HAVE AN OUTSIDE INTEREST IN ONE OF CONTENDING GROUPS,
TOLD AMBASSADOR THAT LNG PROPOSALS WOULD BE CONSIDERED
BY FEC THIS WEEK. HOWEVER, HE BELIEVES THAT SIX BIDS
WILL BE CONSIDERED , INCLUDING GULF AND TEXFEL. HE
NOTED " CERTAIN NIGERIAN INTERESTS" PUSHING HARD FOR
SHELL- BP. WE ARE PROVIDING HIM WITH LIST OF FACTORS
CONSIDERED BY FPC IN EL PASO CASE, WHICH HE SAYS
WILL BE HELPFUL IN ADVANCING INTERESTS OF AMERICAN
CONTENDERS.

6. REGARDING SECOND REFINERY, FIRST SOURCE SAID THAT
FMG HAS DEFINITELY DECIDED AGAINST A NORTHER LOCATION
BECAUSE OF SEVERE COST DISADVANTAGES OF THAT AREA.
TO ASSUAGE THEIR DISAPPOINTMENT, NORTHERN POLITICAL
INTERESTS WERE ASSURED THAT FMG WOULD EQUALIZE PRICE
OF GASOLINE IN NORTH AND SOUTH. SOUTHERN REFINERY
SITE IS STILL UP FOR GRABS WITH VARIOUS OFFICIALS AND
POLITICIANS ARGUING FOR LOCATIONS NEAR THEIR HOME TOWNS.
MOST WIDELY- TOUTED TIP IS CURRENTLY WARRI, IN MIDWEST
STATE.
REINHARDT

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